Action Item

12

Agenda Item No.

Report to the Auburn City Council

City Manager's Approval

To:	Mayor and City Council
From:	Robert Richardson, City Manager
Date:	November 23, 2009
Subject:	Resolution Urging the Governor and State Legislature to Approve CALPERS Pension Reform in 2010

The Issue

Shall the City Council adopt the attached resolution urging the Governor and State Legislature to approve CALPERS pension reform in 2010?

Conclusion and Recommendation

That the City Council discuss and provide direction to staff.

Background

Mayor Holmes received the attached packet from the Orange County Vector Control District containing information and a resolution urging State-wide pension reform next year. The Mayor has requested that the City Council review and consider the resolution for submission to the Governor's Office and State Legislature.

Alternatives

Amend resolution
Deny resolution

Fiscal Impact

None.

Attachments

1. Resolution Urging the Governor and State Legislature to Approve CALPERS Pension Reform in 2010.
2. Background Material

RESOLUTION NO. (Number)

A RESOLUTION OF THE CITY OF (CITY NAME)

URGING THE GOVERNOR AND STATE LEGISLATURE TO APPROVE CALPERS PENSION REFORM IN 2010

WHEREAS, CalPERS is responsible for retirement, health, and related financial programs for more than 1.6 million public employees, retirees, and their families for more than 2,500 public agencies; and

WHEREAS, CalPERS's rules and regulations are restrictive and prevent agencies and their employees from negotiating solutions other than the established retirement formulas; and

WHEREAS, CalPERS requires that any lower retirement formula be applied to new hires only; and

WHEREAS, CalPERS requires that an improved retirement formula must be applied to all past employee service time, which increases agency unfunded liability and the cost of retirement; and

WHEREAS, local governments throughout California are facing severe financial challenges due to the worst economic downturn since the Great Depression; and

WHEREAS, it is the fiscal responsibility of agencies and their employees to address these financial challenges together;

NOW, THEREFORE, BE IT RESOLVED by the City Council of (City Name) that:

SECTION 1. CalPERS reform is needed to approve new retirement formulas that encourage retirement at a later age.

SECTION 2. CalPERS reform is needed to authorize lower retirement formulas to be negotiated for all employees immediately.

SECTION 3. CalPERS reform is needed to authorize improved retirement formula changes to be negotiated for future service time only.

SECTION 4. CalPERS reform is needed to place a cap on the maximum dollar amount that can be paid to any retiree hired after January 1, 2011.

BE IT FURTHER RESOLVED that local governments and their employees need additional choices and options from CalPERS. Basic pension reform to CalPERS must be a priority in 2010 in order to save jobs and preserve public services.

The foregoing Resolution was PASSED and ADOPTED by the City Council of (City Name) at a regular meeting thereof held on (Date), at (Location).

____

(Name), Mayor

____

(Name), City Clerk

ORANGE COUNTY VECTOR CONTROL District Est. 1947

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November 4, 2009

Bob — should we sign onto this? Mike

Mayor Mike Holmes
City of Auburn
1225 Lincoln Way
Auburn, CA 95603

Dear Mayor Holmes:

Enclosed for your information is a paper on CalPERS Pension Reform, as well as a sample resolution, prepared by the Orange County Vector Control District (OCVCD), to formally support the reform of CalPERS. As local agencies address difficult financial challenges, it is necessary that action be taken urging the California Legislature to develop legislation in 2010 to provide additional choices for agencies and their employees. All parties have an interest in saving jobs and preserving public services, yet CalPERS restrictions do not allow agencies and their employees to develop innovative programs to produce immediate and long-term savings.

Recently, the County of Orange and the Orange County Employees Association negotiated such an innovative program. The program received legislative approval through SB 752 (Correa), which was unanimously passed by the State Senate and Assembly. Ironically, CalPERS agencies are prevented from negotiating such innovative programs.

It is OCVCD's hope that local government and their employees will see that CalPERS reform is in all our best interests and demand action from the Legislature. I hope you will read the enclosed paper and take formal action to support CalPERS reform through the resolution provided. I would encourage you to send a copy of your adopted resolution to each State Legislator in order to emphasize its importance. (A copy of the resolution and Legislators address template for printing labels [Avery 5160®] are located on the District's website, www.ocvcd.org.) I would appreciate a copy of your resolution be sent to OCVCD.

Thank you for your time. You may contact me at ggoedhart@ocvcd.org, or (714) 971-2421, extension 112, if you have any questions or comments.

Sincerely,

Gerard Goedhart
District Manager

GG/MH/lb
Enclosures

CalPERS Pension Reform
Saving Jobs, Preserving Public Services

Local governments throughout California are facing severe financial challenges due to the worst economic downturn since the Great Depression. As a consequence, many agencies are laying off and furloughing employees resulting in decreased public services and employee hardship. Complicating the economic picture is the 28% loss on CalPERS investments in 2008, which will result in increased retirement costs for local agencies beginning in Fiscal Year 2010-11. This will further distress agencies and lead to more reductions in jobs and services.

It is up to public agencies and their employees to address these financial challenges together. Recent legislation, SB-752 (Correa), implemented a landmark agreement between the Orange County Employees Association and the County of Orange that allows current employees a choice of retirement formulas. Unfortunately, CalPERS rules and regulations are very restrictive and do not empower agencies and their employees to negotiate creative solutions, such as the agreement reached in Orange County, to address their mutual goals of saving jobs and preserving public services.

The Orange County Vector Control District proposes four fundamental changes to CalPERS rules and regulations:

- ***Approve new retirement formulas that encourage retirement at later ages.***

- ***Through negotiations, authorize lower retirement formulas be applied to all employees immediately. Currently, CalPERS requires that any lower retirement formula be applied to new hires only. This change would result in immediate and long-term savings for agencies, allowing them to save jobs for their employees.***

- ***Through negotiations, authorize improved retirement formula changes be applied to future service time only. Currently, CalPERS requires that an improved retirement formula must be applied to all past employee service time, which increases agency unfunded liability and the cost of retirement.***

- ***Place a cap on the maximum dollar amount that can be paid to any retiree hired after January 1, 2011.***

Local government and their employees need more choices and options from CalPERS. Basic pension reform to CalPERS must be a priority in 2010 in order to save jobs and preserve public services.

10-15-09

Current CalPERS Retirement Formulas

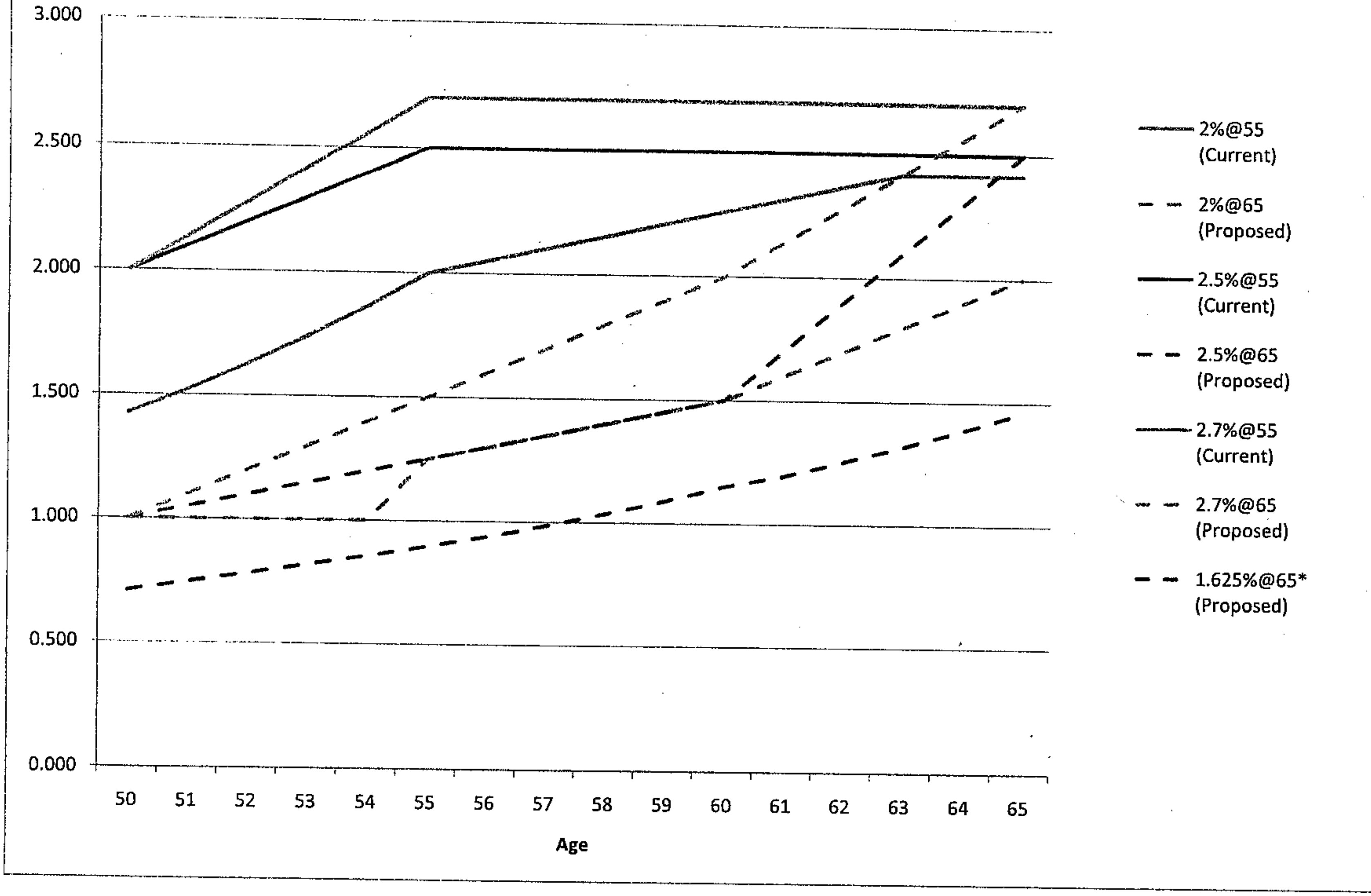
Age	2%@55	2%@60	2.5%@55	2.7%@55	3%@60
50	1.426	1.092	2.000	2.000	2.000
51	1.522	1.156	2.100	2.140	2.100
52	1.628	1.224	2.200	2.280	2.200
53	1.742	1.296	2.300	2.420	2.300
54	1.866	1.376	2.400	2.560	2.400
55	2.000	1.460	2.500	2.700	2.500
56	2.052	1.552	2.500	2.700	2.600
57	2.104	1.650	2.500	2.700	2.700
58	2.156	1.758	2.500	2.700	2.800
59	2.210	1.874	2.500	2.700	2.900
60	2.262	2.000	2.500	2.700	3.000
61	2.314	2.134	2.500	2.700	3.000
62	2.366	2.272	2.500	2.700	3.000
63	2.418	2.418	2.500	2.700	3.000
64	2.418	2.418	2.500	2.700	3.000
65	2.418	2.418	2.500	2.700	3.000

Proposed Retirement Formulas Emphasizing Later Employee Retirement

Age	2%@65	2.5%@65	2.7%@65	1.625%@65*
50	1.000	1.000	1.000	0.7091
51	1.000	1.050	1.100	0.7457
52	1.000	1.100	1.200	0.7816
53	1.000	1.150	1.300	0.8181
54	1.000	1.200	1.400	0.8556
55	1.250	1.250	1.500	0.8954
56	1.300	1.300	1.600	0.9382
57	1.350	1.350	1.700	0.9846
58	1.400	1.400	1.800	1.0350
59	1.450	1.450	1.900	1.0899
60	1.500	1.500	2.000	1.1500
61	1.600	1.700	2.140	1.1947
62	1.700	1.900	2.280	1.2548
63	1.800	2.100	2.420	1.3186
64	1.900	2.300	2.560	1.3865
65	2.000	2.500	2.700	1.4593

* Formula Currently Approved for 1937 Act Agencies
(CERL, Section No. 31676.01)

Comparison of Current and Proposed Retirement Formulas



* Formula Currently Approved for 1937 Act Agencies

Current Retirement Benefits for Employees Beginning Employment at Age 25

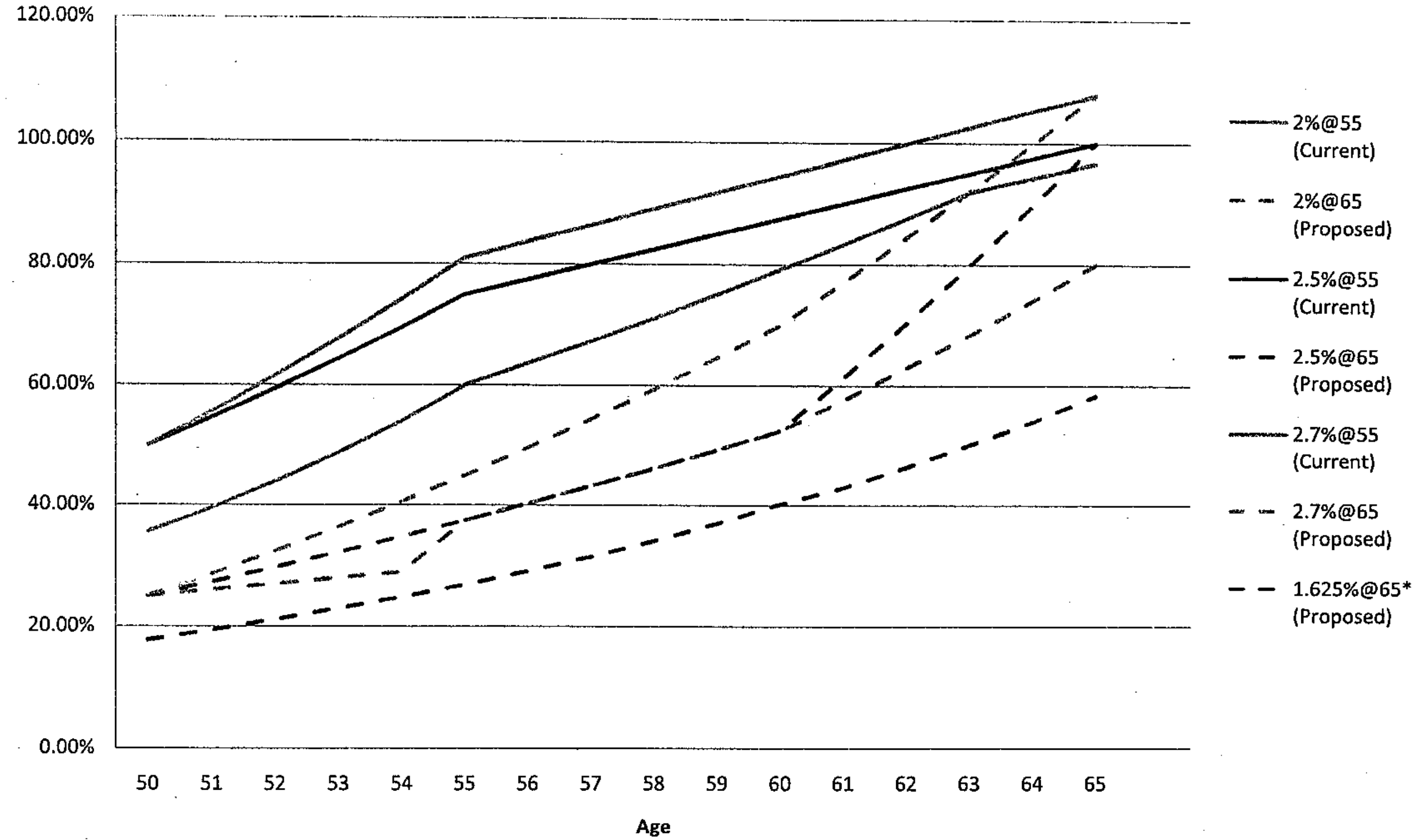
Age	2%@55	2%@60	2.5%@55	2.7%@55	3%@60	Years of Service
50	35.65%	27.30%	50.00%	50.00%	50.00%	25
51	39.57%	30.06%	54.60%	55.64%	54.60%	26
52	43.96%	33.05%	59.40%	61.56%	59.40%	27
53	48.78%	36.29%	64.40%	67.76%	64.40%	28
54	54.11%	39.90%	69.60%	74.24%	69.60%	29
55	60.00%	43.80%	75.00%	81.00%	75.00%	30
56	63.61%	48.11%	77.50%	83.70%	80.60%	31
57	67.33%	52.80%	80.00%	86.40%	86.40%	32
58	71.15%	58.01%	82.50%	89.10%	92.40%	33
59	75.14%	63.72%	85.00%	91.80%	98.60%	34
60	79.17%	70.00%	87.50%	94.50%	105.00%	35
61	83.30%	76.82%	90.00%	97.20%	108.00%	36
62	87.54%	84.06%	92.50%	99.90%	111.00%	37
63	91.88%	91.88%	95.00%	102.60%	114.00%	38
64	94.30%	94.30%	97.50%	105.30%	117.00%	39
65	96.72%	96.72%	100.00%	108.00%	120.00%	40

Proposed Retirement Benefits for Employee Beginning Employment at Age 25

Age	2%@65	2.5%@65	2.7%@65	1.625%@65*	Years of Service
50	25.00%	25.00%	25.00%	17.73%	25
51	26.00%	27.30%	28.60%	19.39%	26
52	27.00%	29.70%	32.40%	21.10%	27
53	28.00%	32.20%	36.40%	22.91%	28
54	29.00%	34.80%	40.60%	24.81%	29
55	37.50%	37.50%	45.00%	26.86%	30
56	40.30%	40.30%	49.60%	29.08%	31
57	43.20%	43.20%	54.40%	31.51%	32
58	46.20%	46.20%	59.40%	34.16%	33
59	49.30%	49.30%	64.60%	37.06%	34
60	52.50%	52.50%	70.00%	40.25%	35
61	57.60%	61.20%	77.04%	43.01%	36
62	62.90%	70.30%	84.36%	46.43%	37
63	68.40%	79.80%	91.96%	50.11%	38
64	74.10%	89.70%	99.84%	54.07%	39
65	80.00%	100.00%	108.00%	58.37%	40

* Formula Currently Approved for 1937 Act Agencies

Comparison of Current and Proposed Formulas with Employment at Age 25



* Formula Currently Approved for 1937 Act Agencies

Current Retirement Benefits for Employee Beginning Employment at Age 35

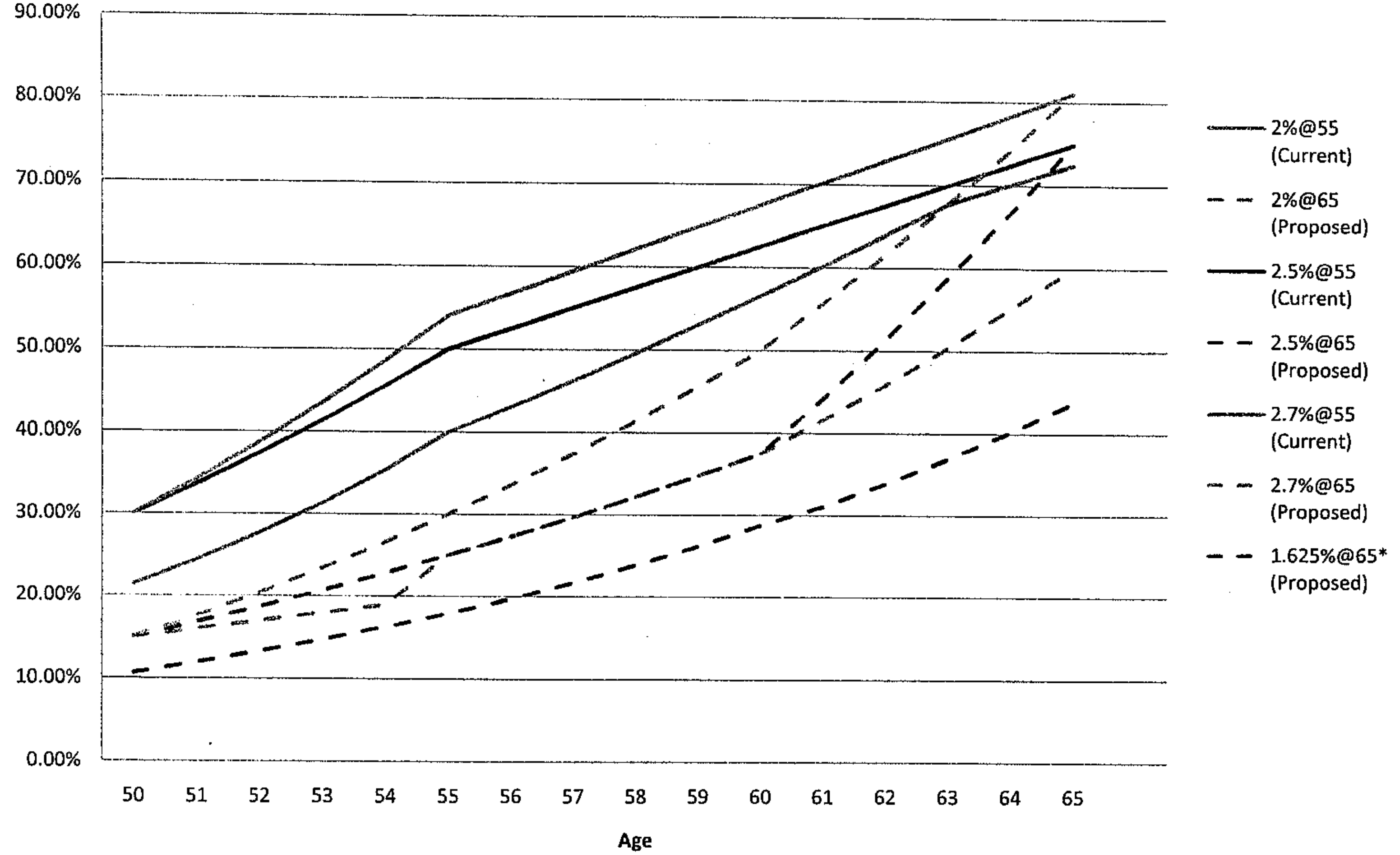
Age	2%@55	2%@60	2.5%@55	2.7%@55	3%@60	Years of Service
50	21.39%	16.38%	30.00%	30.00%	30.00%	15
51	24.35%	18.50%	33.60%	34.24%	33.60%	16
52	27.68%	20.81%	37.40%	38.76%	37.40%	17
53	31.36%	23.33%	41.40%	43.56%	41.40%	18
54	35.45%	26.14%	45.60%	48.64%	45.60%	19
55	40.00%	29.20%	50.00%	54.00%	50.00%	20
56	43.09%	32.59%	52.50%	56.70%	54.60%	21
57	46.29%	36.30%	55.00%	59.40%	59.40%	22
58	49.59%	40.43%	57.50%	62.10%	64.40%	23
59	53.04%	44.98%	60.00%	64.80%	69.60%	24
60	56.55%	50.00%	62.50%	67.50%	75.00%	25
61	60.16%	55.48%	65.00%	70.20%	78.00%	26
62	63.88%	61.34%	67.50%	72.90%	81.00%	27
63	67.70%	67.70%	70.00%	75.60%	84.00%	28
64	70.12%	70.12%	72.50%	78.30%	87.00%	29
65	72.54%	72.54%	75.00%	81.00%	90.00%	30

Proposed Retirement Benefits for Employee Beginning Employment at Age 35

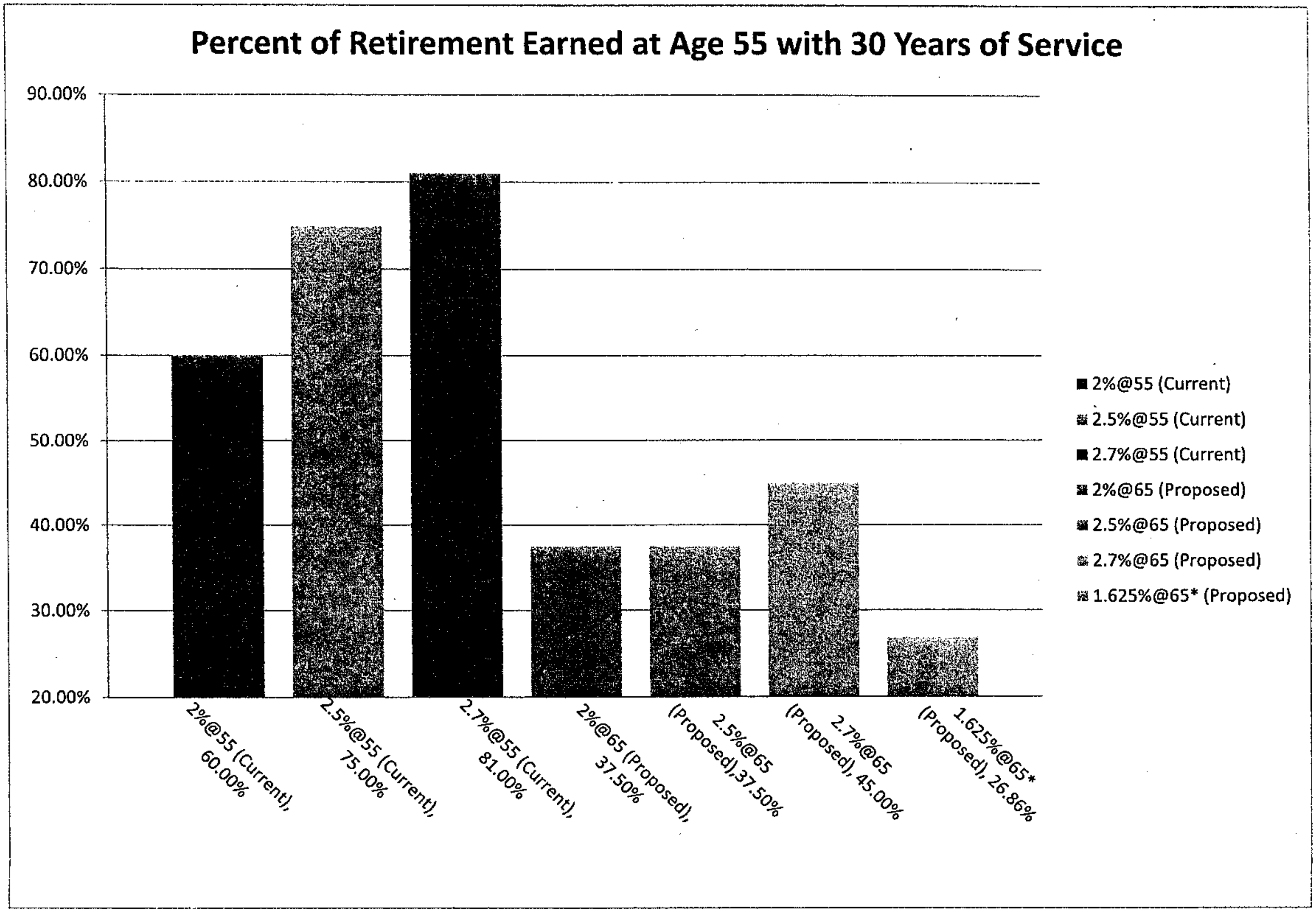
Age	2%@65	2.5%@65	2.7%@65	1.625%@65*	Years of Service
50	15.00%	15.00%	15.00%	10.64%	15
51	16.00%	16.80%	17.60%	11.93%	16
52	17.00%	18.70%	20.40%	13.29%	17
53	18.00%	20.70%	23.40%	14.73%	18
54	19.00%	22.80%	26.60%	16.26%	19
55	25.00%	25.00%	30.00%	17.91%	20
56	27.30%	27.30%	33.60%	19.70%	21
57	29.70%	29.70%	37.40%	21.66%	22
58	32.20%	32.20%	41.40%	23.81%	23
59	34.80%	34.80%	45.60%	26.16%	24
60	37.50%	37.50%	50.00%	28.75%	25
61	41.60%	44.20%	55.64%	31.06%	26
62	45.90%	51.30%	61.56%	33.88%	27
63	50.40%	58.80%	67.76%	36.92%	28
64	55.10%	66.70%	74.24%	40.21%	29
65	60.00%	75.00%	81.00%	43.78%	30

* Formula Currently Approved for 1937 Act Agencies

Comparison of Current and Proposed Formulas with Employment at Age 35



* Formula Currently Approved for 1937 Act Agencies



* Formula Currently Approved for 1937 Act Agencies

LOCAL

THE ORANGE COUNTY REGISTER We're breaking local news online at www.ocregister.com/local

SUNDAY, OCT. 18, 2009

OC WATCHDOG YOUR TAX DOLLARS AT WORK

Fighting pension pests

Orange County Vector Control District takes a break from battling rats and mosquitoes to offer a solution to California's retirement crisis.

TERI SFORZA
REGISTER COLUMNIST

A certain segment of our readership would never dream of asking public employees for a solution to California's public employee pension crisis. *Sacre bleu!*

And, frankly, it came as a surprise to us at The Watchdog when we heard from the tiny Orange County Vector Control District, eager to float some big ideas on how to solve California's big pension problem.

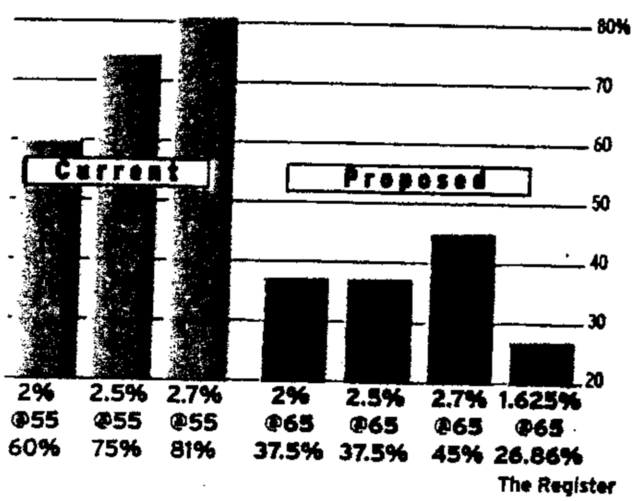
"I don't exactly want to say we're a lone voice crying in the wilderness," said spokesman Mike Hearst (but we can say that, since they pretty much are). "It's just that everyone agrees that the pension formulas are unsustainable. And everyone agrees that it has to change. So we're doing this because we're concerned that if it's not an orderly retreat from an unsustainable position, it's a rout."

Perhaps we can call this "enlightened self-interest"?

So Orange County Vector Control – the wee government charged with keeping rats, mosqui-

SEE WATCHDOG • PAGE 7

Percent of retirement earned at age 55 with 30 years of service



The Register

WATCHDOG

FROM PAGE 1

toes and the diseases they spread at bay – sent its radical ideas (and lots of cool color charts) in an eight-page letter to the California Public Employees Retirement System, whose investments are down $50-or-so billion – roughly 28 percent. (And which you, dear taxpayers, may well wind up bailing out).

Basically, the district is urging CalPERS to raise the age at which public employees can retire; to cut the overly generous formulas used to calculate pensions; and to stop applying newly adopted, generous formulas retroactively to all employees (including those who've been working for 30 years and are on the verge of retiring. That's bloody expensive!).

All this through negotiation with employee unions, of course, the district urges.

There's another idea that the district would like to pursue, but it hasn't gotten the nod from its board of directors yet: *Set a dollar cap on how much money any single retiree can earn per year.* "Should it be $100,000? Or $200,000? I don't know," Hearst said. "But it should be something."

In its letter to CalPERS, the district says:

"Local governments throughout California are facing severe financial challenges due to the worst economic downturn since the Great Depression. As a consequence, many agencies are laying off and furloughing employees resulting in decreased public services and employee hardship. Complicating the economic picture is the 23% loss on CalPERS investments in 2008 (this has been raised to 28 percent), which will result in increased retirement costs for local agencies beginning in Fiscal Year 2010-11. This will further distress agencies and lead to more reductions in jobs and services.

"It is up to public agencies and their employees to address these financial challenges together. Unfortunately, CalPERS rules and regulations are very restrictive and do not empower agencies and their employees to negotiate creative solutions to address their mutual goals of saving jobs and preserving public services.

"The Orange County Vector Control District proposes three fundamental changes to CalPERS rules and regulations:

- Approve new retirement formulas that encourage retirement at later ages. (Watchdog notes that, right now, most public pension formulas encourage retirement at age 55 – which is not even close to being old any more, and at which time many professionals are just hitting their stride.)
- Through negotiations, authorize lower retirement formulas, to be applied to all employees immediately. Currently, CalPERS requires that any lower retirement formula be applied to new hires only. This change would result in immediate and long-term savings for agencies, allowing them to save jobs for their employees. (Watchdog notes that, right now, some state retirement formulas give retirees 3 percent of pay for each year worked as early as age 50, which is what has allowed people like ex-sheriff Mike Carona to retire with about 100 percent of his pay.)
- Through negotiations, authorize improved retirement formula changes be applied to future service time only. Currently, CalPERS requires that an improved retirement formula must be applied to all past employee service time, which increases agency unfunded liability and the cost of retirement.

"Local government and their employees need more choices and options from CalPERS. Basic pension reform to CalPERS must be a priority in order to save jobs and preserve public services."

Orange County Vector Control District has the 2 percent at 55 formula, which we now know is among the lowest in Southern California. It suggests moving to 2 percent at 65, for example.

BY THE NUMBERS

The bar chart gives a very graphic idea of just how much money these retirement formulas are costing, and how much changes could save. The first three bars show, in a rather stark and shocking manner, how today's 55-years-young employees with 30 years in will earn, at the least, 60 percent of their pay – and as much as 80 percent – every year for the rest of their lives. And those last four bars show how much they'd be paid under revised formulas with higher retirement ages.

Seems a lot more sustainable, no? And not so shabby. We've heard from quite a lot of people who would gleefully retire at age 65 with a guaranteed 38 percent or so of their highest pay.

A Field Poll released Friday shows that a majority of California voters support reducing public pension benefits, and there are other ideas for scaling back the burden out there.

One is the Public Employee Benefits Reform Initiative, which is making its way to a ballot box near you; and another is the landmark deal just struck between Orange County and its union – a mutual agreement to start a two-tiered retirement system (though experts say this won't save much money for quite some time).

Hearst points out that CalPERS rules wouldn't allow the sort of deal that the county and the unions just struck.

Anyway, we'll note here that the vector district has taken the brunt of some jokes in this column (because we're a sucker for a setup, and because we've had questions about why a completely separate government is needed to fight vector-borne diseases). But we do appreciate its forthrightness in trying to address a problem that could bring California to its financial knees.

"It's the right thing to do," Hearst said.

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Governor signs retirement plan

Governor Schwarzenegger has responded to calls for pension reform by signing into law a measure authored by Senator Lou Correa (Orange County) that could well serve as a template throughout California.

Senate Bill 752 enacts a reform in pension law that was negotiated between both the Orange County Employees Association and the Orange County Board of Supervisors.

The new hybrid retirement plan will provide that both new hires and current employees would be given the option of choosing the existing defined benefit plan or a new hybrid that combines a smaller defined benefit payment with a 401(k)-style individual investment plan-- at a cost savings of at least $10 million the first year and possibly millions more thereafter.

In response to the approval, Senator Correa stated, "this historic measure is a breakthrough program that the workers, the Orange County Employees Association and the County of Orange have agreed to. It is a plan that can serve as a role model for the rest of the state."

Courtesy photo

State Senator Lou Correa addressing the Senate during Floor Session.

In their joint support for the bill, Orange County leaders hailed the proposal as an innovative partnership of the OCEA and the County, addressing the needs of our workforce while remaining responsible stewards of taxpayer dollars.

Senator Correa concluded by adding, "As the author of Senate Bill 752, I am pleased that all parties collaborated to achieve this success. This solution preserves precious Orange County funds, while protecting the pensions of hard-working Orange County Employees, a win-win for all, especially Orange County Taxpayers."

Senator Lou Correa represents the 34th District which includes the cities of Anaheim, Buena Park, Fullerton, Garden Grove, Santa Ana, Stanton, and Westminster.